

Xenon Alpha Plus1 are redeemable preference shares carrying a return linked to the performance of the Alpha Plus Portfolio. The shares are issued by Deutsche Xenon Limited. The Alpha Plus Portfolio is designed to generate returns linked to the performance of two funds of hedge funds: the Ivy Rosewood Diversified Fund and Silver Creek Low Vol Strategies.

### Performance review

Performance (to 31 December 2006)	Xenon Alpha Plus1	UBS Composite Bond Index	S&P/ASX 200 Accumulation Index	S&P 500 Accumulation Index in USD
One month	9.16%	-0.30%	3.69%	1.40%
Three months	17.06%	0.28%	10.94%	6.70%
Six months	8.27%	2.26%	14.16%	12.74%
Annualised return since inception on 25 November 2004 <sup>(1)</sup>	16.18%	4.35%	24.61%	11.14%

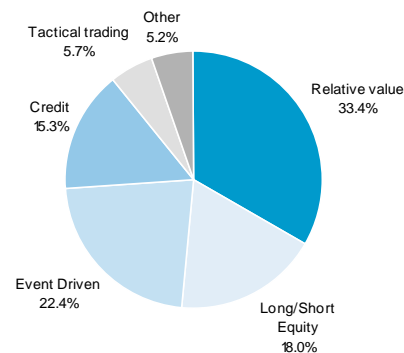
(1) Represents the compound average growth rate since inception on 25 November 2004  
Source: Deutsche Bank

Percentage change in net asset value <sup>(1)</sup>													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD <sup>(2)</sup>
2004												3.44%	3.44%
2005	-0.53%	2.06%	-0.46%	-3.28%	-1.55%	1.95%	1.70%	1.24%	3.78%	-2.14%	4.83%	4.76%	12.65%
2006	5.34%	0.96%	1.77%	2.66%	-2.24%	-0.05%	-0.94%	1.64%	-8.13%	2.13%	5.00%	9.16%	17.55%

(1) Represents the percentage change each month in the net asset value of Xenon Alpha Plus1  
(2) Represents the year to date percentage change in the net asset value of Xenon Alpha Plus1  
Source: Deutsche Bank

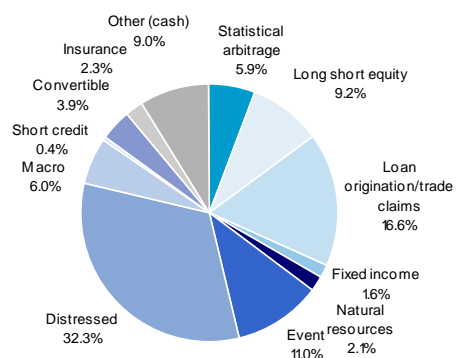
Ivy allocation by strategy as at 31 December 2006	
	% of fund
Relative value	33.4%
Long/short equity	18.0%
Event driven	22.4%
Credit	15.3%
Tactical trading	5.7%
Other	5.2%
Total	100.0%

Source: Ivy Asset Management



Silver Creek allocation by strategy as at 31 December 2006	
	% of fund
Statistical arbitrage	5.9%
Long/short equity	9.2%
Loan origination/trade claims	16.6%
Fixed income	1.6%
Natural resources	2.1%
Event	11.0%
Distressed	32.3%
Macro	6.0%
Short credit	0.4%
Convertible	3.9%
Insurance	2.3%
Other (cash)	8.7%
Total	100.0%

Source: Silver Creek



## Portfolio performance

For the final quarter of 2006, the Xenon Alpha Plus1 Portfolio increased by 17.06%. Combined with its performance since inception, Xenon Alpha Plus1 has recorded an annualised return of 16.18%.

During the quarter the Silver Creek account contributed 10.52 percentage points to performance and the Ivy account contributed 6.54 percentage points to performance.

The total leverage employed per Xenon Alpha Plus1 was \$3.08 per Share at quarter end.

## Macro review

In the final quarter of 2006, global equity markets generally closed strongly and credit markets remained buoyant. Market behaviour has generally continued to demonstrate a reversal of the risk aversion seen in the second quarter of 2006.

In the US, there were a number of signs that the economy may be slowing and markets were encouraged by the Federal Reserve decision to leave interest rates unchanged. In contrast, signs of a strengthening European economy led the European Central Bank to increase interest rates in December by 0.25% to 3.50%. In Japan, the Bank of Japan left rates unchanged after increasing them in July for the first time in six years.

Over the quarter the UBS Composite Bond Index moved 0.28% higher, the S&P 500 Accumulation Index was 6.70% higher in US dollar terms and the S&P/ASX 200 Accumulation Index was up 10.94% in Australian dollar terms.

In general, the final three months of 2006 brought the type of environment that suits many hedge fund managers, including a number of event driven opportunities and generally benign credit conditions.

## Strategy review

**Long/short.** During the quarter, global equity markets performed well which generally benefited hedge fund managers, particularly those focused on European cyclical and small cap companies.

**Event driven.** Managers in this sector largely recorded positive results with profits generated from a continued high level of capital market activity and a generally sustained market appetite for acquisitions, mergers, spin-offs and leveraged buy-outs.

**Credit.** Managers focused on credit strategies generally experienced favourable credit markets in the fourth quarter. The continued low default rate and generally favourable corporate earnings contributed to strong returns in some instances.

**Relative value.** Relative value strategies generally performed well during the quarter, with many led by the performance of convertible arbitrage strategies. Some managers benefited from tightening credit spreads, secondary market activity and participation in new issues.

**Tactical trading.** In tactical trading strategies, performance in global fixed income instruments and currencies was generally mixed, while hedge fund managers with greater equity and more traditional commodity exposure mostly performed well.



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